

Message Text

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ACTION EA-09

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FM AMEMBASSY TOKYO

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C O N F I D E N T I A L TOKYO 10596

E.O. 11652: GDS

TAGS: EFIN JA

SUBJECT: JAPANESE TRADE AND YEN RATE OF EXCHANGE

REF: TOKYO A-206, 6/10/76; (B) TOKYO 9262; (C) TOKYO 9486;
(D) TOKYO 10538

1. BEGIN SUMMARY. JAPANESE FINANCIAL OFFICIALS ARE DEVOTING INCREASED ATTENTION TO YEN EXCHANGE RATE AND BALANCE OF PAYMENTS PROBLEMS. AT PRESENT THERE IS BOTH CONTROVERSY AND STRONG REASONS FOR THEM TO ENCOURAGE RATE STABILITY. IF JAPANESE OFFICIALS RAISE SUCH QUESTIONS WITH FOREIGN REPRESENTATIVES, WE THINK THE MOST EFFECTIVE RESPONSE WOULD BE TO STRESS THE RESPONSIBILITY OF JAPAN AND OTHER INDUSTRIALIZED COUNTRIES TO TAKE INTO ACCOUNT THE GLOBAL SITUATION CREATED BY THE SURPLUS POSITION OF THE OIL EXPORTERS AND THE NEED TO SHARE THE BURDEN TO MAINTAINING AN ORDERLY INTERNATIONAL PAYMENTS EQUILIBRIUM. END SUMMARY.

2. NUMEROUS PRESS AND OTHER REPORTS FULLY DESCRIBED IN REFERENCED MESSAGES SHOW THAT JAPANESE OFFICIALS AND ACADEMICS ARE INCREASINGLY CONCERNED ABOUT THE FOREIGN EXCHANGE VALUE OF THE YEN AND JAPANESE FOREIGN TRADE POSITION. THERE IS GROWING EVIDENCE THAT SOME JAPANESE FINANCIAL OBSERVERS
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ARE UNEASY ABOUT THE FOREIGN PAYMENTS SITUATION, AND

ESPECIALLY FOREIGN REACTIONS TO IT. THEY DO NOT NECESSARILY WANT A FOREX RATE CHANGE; INDEED, MUCH OF THE DISCUSSION IS A DEFENSE OF THE PRESENT RATE.

3. IN DISCUSSING A POSSIBLE FOREX RATE CHANGE, THE JAPANESE ORDINARILY CONSIDER FIRST THE INTERNAL EFFECTS. THEY ARE STRONGLY INFLUENCED IN ONE DIRECTION BY THE IMPACT OF THE FOREX RATE ON THE PETROLEUM IMPORTERS IN THE REFINING INDUSTRY, AND PROBABLY EVEN MORE INFLUENCED IN THE OTHER DIRECTION BY CONCERN ABOUT THE PROFIT POSITION OF EXPORT PRODUCERS. AN EXAMPLE OF THIS IS A RECENT PRESS REPORT STATING THAT JAPANESE AUTO MANUFACTURERS WILL HAVE TO RAISE EXPORT PRICES OF 1977 AUTOMOBILES BECAUSE OF RISING COSTS. ANY RISE IN THE VALUE OF THE YEN WOULD EXACERBATE THE PROBLEM.

4. THE EFFECT OF THE RATE ON JAPANESE TRADE BALANCE IS TAKEN UP SECOND. IN THE SAME BREATH, JAPANESE ANALYSTS WILL SAY THAT, OF COURSE, THE OVERALL BALANCE OF PAYMENTS (WHICH IS LESS FAVORABLE) SHOULD BE TAKEN INTO ACCOUNT, NOT JUST THE TRADE BALANCE (WHICH IS NOW MORE FAVORABLE). GENERALLY IT IS ASSUMED THAT A REVALUATION OF THE YEN WOULD REDUCE THE TRADE SURPLUS. BASED ON PAST EXPERIENCE WITH RISES IN THE VALUE OF THE YEN, THE ARGUMENT IS NO LONGER HEARD THAT, BECAUSE OF "PERVERSE" ELASTICITIES, REVALUATION COULD INCREASE THE TRADE SURPLUS. PERHAPS THE STRONGEST ARGUMENT FOR HOLDING THE YEN STEADY IS CONCERN ABOUT REDUCTIONS OF EXPORTS WHICH COULD CAUSE A SLACHENING IN THE OVERALL GROWTH RATE, BRINGING JAPANESE ECONOMIC RECOVERY TO A STOP. JAPAN'S RECOVERY HAS FOR SOME TIME BEEN EXPORT LED, WHILE CONSUMER DEMAND HAS INCREASED ONLY IN THE LAST TWO OR THREE MONTHS. THEREFORE, THE JAPANESE THINK THEY HAVE STRONG REASONS NOT TO TINKER WITH A DEVELOPMENT WHICH HAS CONTRIBUTED SO MUCH TO ECONOMIC RECOVERY.

5. BANK OF JAPAN AND THE EPA ARE NOW BECOMING CONCERNED ABOUT RENEWED INFLATION. HOWEVER, THEIR WORRY IS LIMITED TO IMPORTED COMMODITY PRICES, NOT THE INFLATION IMPLICATIONS OF A BALANCE OF PAYMENTS SURPLUS. WE HAVE NOT HEARD ANYONE SAY THAT INCREASED IMPORTS WOULD HELP TO

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HOLD PRICES STEADY.

6. WITH JAPANESE TRADE SURPLUS FOR THIS CALENDAR YEAR LIKELY TO EXCEED \$10 BILLION, WE ANTICIPATE THAT THE JAPANESE WILL INTENSIFY THEIR ANALYSIS. JAPANESE OFFICIALS HAVE REPEATEDLY TOLD US THAT THEY ANTICIPATE THAT IMPORTS WILL RISE NATURALLY--PROBABLY LATE IN THE YEAR--BUT THEY ARE NOT SPECIFIC. MEANWHILE, MONTHLY TRADE DATA SHOW

LARGE SURPLUS WITH THE U.S. AND THE EC. THE JAPANESE
HAVE ALREADY BEEN ASKING U.S. OFFICIALS FOR THEIR VIEWS
ON THIS QUESTION. EMBASSY BELIEVES THE MOST EFFECTIVE
RESPONSE AT THIS TIME IS TO ESCHEW SPECIFIC POLICY
RECOMMENDATIONS AND TO REFER TO THE RESPONSIBILITY OF
MAJOR INDUSTRIAL NATIONS, INCLUDING JAPAN, TO TAKE INTO
ACCOUNT THE GLOBAL PAYMENTS SITUATION WHICH THIS YEAR
WILL REQUIRE MEASURES TO BALANCE THE ANTICIPATED TRADE
SURPLUS OF \$30-40 BILLION OF THE OIL EXPORTING COUNTRIES.
WE WOULD LIKE TO STRESS TO THE JAPANESE THAT THIS IS A
BURDEN BEING SHARED IN COMMON BY MAJOR INDUSTRIALIZED COUNTRIES.
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